



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FORMER GREENUP COUNTY SHERIFF**

**Calendar Year 1998**

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## **EXECUTIVE SUMMARY**

### **GREENUP COUNTY EARL R. MARSHALL, FORMER SHERIFF CALENDAR YEAR 1998 FEE AUDIT**

This is an audit of the former Greenup County Sheriff, Earl R. Marshall. In this audit we have expressed a qualified opinion because the former Sheriff signed the Management Representation Letter with the qualification that he did not agree with adjustments made by the auditors to the financial statement. The former Sheriff made numerous transfers amounting to over \$200,000 between the tax account and fee account during calendar year 1998. These transfers were not for tax commissions. Further, the former Sheriff did not include any transfer amounts owed to the tax or fee account as a receivable or liability at the end of the year. This created a misstatement of the actual cash balances for both funds.

#### **Former Sheriff Earl R. Marshall's audit revealed the following noncompliances or internal control weaknesses:**

- Former Sheriff Earl R. Marshall Should Eliminate The Cumulative Deficit Of \$49,818 In His Official Fee Account
- Former Sheriff Earl R. Marshall Should Pay \$43,301 In Excess Fees To The Fiscal Court
- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl R. Marshall Should Have Obtained A Written Agreement To Protect Deposits

The former Sheriff's cumulative deficit of \$49,818 arises from spending in excess of receipts of the official fee account. The former Sheriff did not change bank accounts from one year to the next, so that the deficit has accumulated throughout the years. The former Sheriff contends that the deficit does not exist because the fiscal court has voted to exonerate him from any liability related to these deficits. However, in taking this action, the fiscal court has not considered existing liabilities owed to third parties. If the fiscal court does not fund the \$49,818 deficit or collect the money from former Sheriff Earl R. Marshall, then those third parties will not receive their funds. Of the liabilities owed from the \$49,818 deficit, the largest amount of money owed is \$43,301 in excess fees due the Greenup County Fiscal Court.



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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert W. Carpenter, County Judge/Executive

Honorable Keith Martin Cooper, Greenup County Sheriff

Honorable Earl R. Marshall, Former Greenup County Sheriff

Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Greenup County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff prepared the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The former Sheriff signed the Management Representation Letter with the qualification that he did not agree with adjustments made by the auditors to the financial statement. These adjustments are explained in Note 5 of our notes to the Financial Statements.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Greenup County Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Robert W. Carpenter, Greenup County Judge/Executive  
Honorable Keith Martin Cooper, Greenup County Sheriff  
Honorable Earl R. Marshall, Former Greenup County Sheriff  
Members of the Greenup County Fiscal Court

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discuss the following areas of noncompliance:

- Former Sheriff Earl R. Marshall Should Eliminate The Cumulative Deficit Of \$49,818 In His Official Fee Account
- Former Sheriff Earl R. Marshall Should Pay \$43,301 In Excess Fees To The Fiscal Court
- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl R. Marshall Should Have Obtained A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated May 25, 2000, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 25, 2000



GREENUP COUNTY  
EARL R. MARSHALL, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

Federal Grants	\$	30,271	
State Fees For Services			29,962
Circuit Court Clerk:			
Sheriff Security Service	\$	14,899	
Fines and Fees Collected		<u>1,907</u>	16,806
Fiscal Court:			
Fireworks Permits			60
County Clerk - Delinquent Taxes			36,466
Commission On Taxes Collected			307,540
Fees Collected For Services:			
Auto Inspections	\$	15,655	
Accident and Police Reports		504	
Serving Papers		16,060	
Carrying Concealed Deadly Weapon Permits		<u>4,920</u>	37,139
Other:			
Expense Reimbursement	\$	6,892	
Advertising		5,296	
Sale of Equipment		16,401	
Miscellaneous		2,049	
Donations - Sheriff's Ranch		800	
Kentucky Law Enforcement			
Foundation Program Fund		6,839	
Drug Forfeitures and Seizures		<u>34,000</u>	72,277
Interest Earned			14,923
Borrowed Money:			
Bank Note			<u>160,000</u>
Gross Receipts (Carried Forward)	\$		705,444

GREENUP COUNTY  
 EARL R. MARSHALL, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 Calendar Year 1998  
 (Continued)

Gross Receipts (Brought Forward) \$ 705,444

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services:

Deputies' Gross Salaries	\$ 167,187
Clerical Salary	23,964
Bailiff, Deputy, and Clerical	17,907
Casual Labor	5,075
K-9 Unit	457
Payroll Taxes	21,903
Kentucky Law Enforcement Foundation	
Program Fund Deputies	5,774

Contracted Services:

Advertising	2,862
Computer Services	7,251
Dispatching - Kentucky State Police	8,750
Professional Services-	
Tax Settlements	31,125
Fee Audit	15,475
Legal Fees	9,949
Accounting Services	5,050
Consultation	2,875
Tax Audits	1,070
Service Charges	157

Materials and Supplies:

Office Materials and Supplies	1,659
Uniforms and Police Supplies	5,175
Office Expenses	5,247

Other Charges:

Postage	5,726
Insurance	598
Bond	1,966
Miscellaneous	3,180

GREENUP COUNTY  
 EARL R. MARSHALL, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 Calendar Year 1998  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Other Charges (Continued):

Telephone	\$	4,607
Radio Expense		1,396
Travel Expense		6,944
Carrying Concealed Deadly Weapon Permits		3,520
Interest to School		1,706
Bank Charges		145
Training		480
Fiscal Court Prior Year's Expense Reimbursement		4,271

Auto Expense:

Gasoline		13,366
Maintenance and Repairs		8,816

Capital Outlay:

Equipment Rental		394
Car Payment	<u>4,621</u>	\$ 400,648

Debt Service:

Bank Notes	<u>160,000</u>
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Total Disbursements	\$	560,648
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Reserve:

Additional Interest Due School	<u>8,405</u>
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Total Disbursements and Reserve	\$	<u>569,053</u>
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Net Receipts	\$	136,391
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Less: Statutory Maximum	<u>48,726</u>
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Excess Fees For Calendar Year 1998	\$	87,665
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Payment to County Treasurer - April 12, 1999	\$	2,524
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Credits:

1995 Excess Fee Overpayment	\$	164	
1995 Employer Share Social Security		19,962	
1996 Excess Fee Overpayment		969	
1997 Employer Share Social Security	<u>20,745</u>	<u>41,840</u>	<u>44,364</u>

Balance Due at Completion of Audit	\$	<u><u>43,301</u></u>
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The accompanying notes are an integral part of the financial statement.

GREENUP COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

GREENUP COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1998  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

Note 4. Auditor's Adjustments

The former Sheriff made numerous transfers amounting to over \$200,000 between the tax account and fee account during calendar year 1998. These transfers were not for tax commissions. Further, the former Sheriff did not include any transfer amounts owed to the tax or fee account as a receivable or liability at the end of the year. This created a misstatement of the actual cash balances for both funds.

GREENUP COUNTY  
EARL R. MARSHALL, FORMER SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 1998

Assets

Cash in Bank		\$	8,228
Deposits in Transit			80,564
Receivables:			
1998 Fee Account-			
Net Transfers Due from Tax	\$	47,849	
1997 Fee Account-			
Due From Tax Account for Repayment of Line of Credit		6,000	
Commissions Due From Tax Account		2,022	
Interest Due From Tax Account		3,036	
1996 Fee Account-			
From Tax Account for Repayment of Line of Credit		18,000	
Bank Share Commissions Due From Tax Account		3,967	
1995 Fee Account-			
Interest Due From Tax Account		9,635	
Commission Due From Tax Account		12,943	103,452
			<hr/>
Total Assets		\$	<u>192,244</u>

Liabilities

Outstanding Checks	\$	4,123	
Obligations Paid After December 31, 1997		<u>73,470</u>	
Total Obligations Paid After December 31, 1997			\$ 77,593
Unpaid Obligations:			
1998 Fee Account-			
Balance of 1998 Excess Fees Due Fiscal Court	\$	43,301	
School Interest Refund Due To Tax Account		<u>8,405</u>	\$ 51,706
1997 Fee Account-			
1995 Tax Overpayments Due To Tax Account		9,178	
1996 Fee Account-			
Due To Tax Account-			
1994 Tax Overpayments	\$	7,626	
Interfund Transfers		3,500	
Commission Overpayment		<u>28,750</u>	39,876

GREENUP COUNTY  
EARL R. MARSHALL, FORMER SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
December 31, 1998  
(Continued)

Liabilities (Continued)

Unpaid Obligations (Continued):

1995 Fee Account-

Interfund Transfers Due To Tax Account

\$ 63,709

Total Unpaid Obligations

\$ 164,469

Total Liabilities

\$ 242,062

Total Fund Deficit as of December 31, 1998

\$ (49,818)

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## COMMENTS AND RECOMMENDATIONS



GREENUP COUNTY  
EARL R. MARSHALL, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

STATE LAWS AND REGULATIONS:

1. Former Sheriff Earl R. Marshall Should Eliminate The Cumulative Deficit Of \$49,818 In His Official Fee Account

Former Sheriff Earl R. Marshall has a cumulative deficit of \$49,818 in his official fee account. This deficit resulted from spending in excess of receipts of the official fee account. The former Sheriff did not change bank accounts from one year to the next, so the deficit has accumulated throughout the years. To appropriately close the former Sheriff's fee accounts, we recommend the following:

- (1) Deposit \$49,818 of personal funds from the Sheriff to the fee account.
- (2) Transfer \$17,716 from the 1998 fee account to the 1998 tax account.
- (3) Pay fiscal court \$43,301 for additional 1998 excess fees.

*Former Sheriff Earl R. Marshall's Response:*

*We disagree with 1995 and 1997 deficit due to fiscal court action on December 15, 1998.*

Auditor's Reply:

The Fiscal Court may fund the \$49,818 cumulative deficit or collect the money from former Sheriff Earl R. Marshall, but the existing debt to third parties should be paid.

2. Former Sheriff Earl R. Marshall Should Pay \$43,301 In Excess Fees To The Fiscal Court

For calendar year 1998, former Sheriff Earl R. Marshall owed \$87,665 in excess fees to the fiscal court. The former Sheriff paid \$2,524 in excess fees on April 12, 1999. There were credits due the Sheriff from fiscal court totaling \$44,364. Therefore, an additional \$43,301 of excess fees is due the fiscal court. KRS 134.310(6) requires the Sheriff's office to pay excess fees to the fiscal court. We recommend former Sheriff Earl R. Marshall pay the remaining \$43,301 of excess fees to the fiscal court. This \$43,301 is included as part of the former Sheriff's deficit reported in comment one.

*Former Sheriff Earl R. Marshall's Response:*

*Mr. Marshall was given an opportunity to respond to this comment but has not done so.*

3. Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account

Former Sheriff Earl R. Marshall made numerous transfers amounting to over \$200,000 between the tax account and fee account during calendar year 1998. KRS 134.170 forbids the use of tax monies for purposes other than that for which they were intended. Tax collections may not be used to fund fee account operations. Tax commissions may be transferred to the fee account, but tax collections should remain separate at all times. These transfers were not for tax commissions and are unacceptable. Further, the former Sheriff did not include any transfer amounts owed to the tax or fee account as a receivable or liability at the end of the year. This created a misstatement of the actual cash balances for both funds.

GREENUP COUNTY  
 EARL R. MARSHALL, FORMER SHERIFF  
 SCHEDULE OF COMMENTS AND RECOMMENDATIONS  
 Calendar Year 1998  
 (Continued)

3. Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account (Continued)

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A lot of additional time was spent on this audit just reconstructing transfers by going through all deposit tickets and cancelled checks. We also had to account for prior year transfers between the tax and fee accounts because the former Sheriff did not change bank accounts from one year to the next. We recommend the Sheriff's office refrain from transferring money between the tax account and fee account (other than normal tax commissions transfers) as this is in violation of KRS 134.170.

*Former Sheriff Earl R. Marshall's Response:*

*Mr. Marshall was given an opportunity to respond to this comment but has not done so.*

4. Former Sheriff Earl R. Marshall Should Have Obtained A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff had a bank balance of \$4,309,400; FDIC insurance of \$100,000; and securities pledged of \$4,500,000 as of November 13, 1998. Even though the former Sheriff obtained pledged securities of \$4,500,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with depository institutions. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Former Sheriff Earl R. Marshall's Response:*

*Mr. Marshall was given an opportunity to respond to this comment but has not done so.*

PRIOR YEAR:

Our prior year audit reported the following items:

- Former Sheriff Earl R. Marshall Had A Deficit In His Fee Account
- Former Sheriff Earl R. Marshall Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl R. Marshall Did Not Obtain A Written Agreement To Protect Deposits

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Robert W. Carpenter, Greenup County Judge/Executive  
Honorable Keith Martin Cooper, Greenup County Sheriff  
Honorable Earl R. Marshall, Former Greenup County Sheriff  
Members of the Greenup County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Greenup County Sheriff as of December 31, 1998, and have issued our report thereon dated May 25, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Greenup County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Former Sheriff Earl R. Marshall Should Eliminate The Cumulative Deficit Of \$49,818 In His Official Fee Account
- Former Sheriff Earl R. Marshall Should Pay \$43,301 In Excess Fees To The Fiscal Court
- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl R. Marshall Should Have Obtained A Written Agreement To Protect Deposits

Honorable Robert W. Carpenter, Greenup County Judge/Executive  
Honorable Keith Martin Cooper, Greenup County Sheriff  
Honorable Earl R. Marshall, Former Greenup County Sheriff  
Members of the Greenup County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Greenup County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations

- Former Sheriff Earl R. Marshall Should Eliminate The Cumulative Deficit Of \$49,818 In His Official Fee Account
- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 25, 2000



